

Tutorial 1 – 30/7/15

Topics: Financial Accounting, Double Entry System, Post Journals, Accounting Equation, Financial Statements, Managerial Accounting

Financial Accounting: recording financial information to report to external stakeholders (customers, clients, ATO, potential investors, etc.)

- recorded in financial statements

Steps to Financial Statements

1. Post Journals
2. Prepare T-Accounts
3. Prepare Trial Balance
4. Prepare Financial Statements

Double Entry System: every transaction affects at least 2 accounts

THEREFORE, IN TOTAL, DEBITS MUST EQUAL CREDITS

Post Journals: Steps to correctly post journals

1. *Identify* the accounts affected
2. *Clarify* them by category (are they an Asset, Liability, Equity, Revenue or Expense)
3. *Determine* the direction of the balance (is the accounts balance going up or down?)
4. Use *Accounting Rules* to determine whether to debit or credit the account
5. *Confirm* debits = credits and the Accounting Equation balances ($A = L + E$)

Accounting Equation

Assets = Liabilities + Equity

The accounting equation can also include Revenues and Expenses;

Assets + Expenses = Liabilities + Equity + Revenues

A transaction only becomes an *Expense* when it has been used. If it is prepaid it is an *Asset*.

E.g. Prepaid rent is an *Asset*, whereas the Rent Expense after using the rent is an *Expense*. Likewise for salaries, advertising, electricity, gas, etc.

Financial Statements

- Statement of Comprehensive Income (Profit & Loss Statement, Income Statement)
- Statement of Changes in Equity
- Statement of Financial Position (Balance Sheet)
- Cash Flow Statement

Preparation Order

Financial statements are prepared in a particular order as there are pieces of information which link between the financial statements. It is important to stick to this order so that there are no discrepancies in balances.

- Each statement has 3 pieces of information at the top. Company name, statement name and the date (for year/period ending [for SoCI, SoCIE, CFS]) (as at [SoFP])

1. Statement of Comprehensive Income (Income Statement)

Statement Layout

Revenues
- Expenses
= Net Profit/Loss

2. Statement of Changes in Equity

Statement Layout

Opening Balance (Retained Earnings)
+ Profit
- Loss
- Dividends
= Closing Balance (Retained Earnings)

3. Statement of Financial Position (Balance Sheet)

Statement Layout

Assets
- Liabilities
- Equity
= Net Profit/Loss

4. Cash Flow Statement

Opening Cash Balance
+/- Operating Cash Flows
+/- Investing Cash Flows
+/- Financing Cash Flows
= Closing Cash Balance

Managerial Accounting: recording financial and non-financial information to report to internal users (managers, employees, board)

Lecture 1 – 30/7/15

Topics: Non-current Assets, Depreciation, Reducing-balance Method, Units-of-activity Method, Expenditures after Acquisition, Asset Impairment, Disposal of Non-Current Asset, Intangible Assets

Non-current Asset: recorded at acquisition cost. Acquisition cost only includes compulsory costs which bring the asset to its full potential:

- purchase price
- taxes and duties
- closing costs to attorneys
- delivery
- insurance during transit
- installation costs

Depreciation: 3 types of depreciation;

- Straight-line method
- Reducing-balance method
- Units-of-activity method